

MPHASIS LIMITED**Q4 FY08 EARNINGS CALL****02 MAY 2008**

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Moderator: Good morning Ladies and Gentlemen. I am Manjula, the moderator for this conference. Welcome to the Mphasis Conference Call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over to Mr. Ganesh Duvvuri, of IDFC-SSKI Securities Private Limited. Thank you and over to you sir.

Ganesh Duvvuri: Thanks Manjula. Hello everybody. On behalf of IDFC-SSKI, I would like to welcome you all on the call to discuss the results for the quarter ending March 2008 of Mphasis Limited. Representing Mphasis on the call are Mr. Jeya Kumar, CEO; Mr. Deepak Patel, MD and Group COO; and Mr. Susanto Banerjee, Interim CFO. With that introduction, I would like to now invite Mr. Jeya Kumar to take the discussion forward. Thanks and over to you Mr. Mphasis.

Jeya Kumar: Thank you. Welcome to the call and firstly I want to thank all of you'll for taking the time to be on the call with us. This is Mphasis. All in all, we had a very good financial year. We made a lot of progress over the last couple of quarters. We continued to see steady growth right throughout the year. As you see from a financial year perspective, we had 38% growth in our top line, 42% growth in net profits, and 40% growth in EPS despite rupee appreciation of 11%. This was supported by a very strong growth across our business units. Our knowledge services like finance and accounting, HR services along with a turnaround in the domestic business itself is now paying off quite a bit. We had a 31% growth on our top line and a 14% growth in our net profit compared to the same quarter last year. Growth over sequential quarter was 4% in top line and 8% in our net profits. During the year, we had a net addition about 7035 professionals. Last quarter, we had a net addition about 811 taking our total head count over 27,000. This fiscal year has

been one of change and transformation with EDS as a strong business partner that company has been building a very solid foundation for development of capability and capacity. Our leadership team is coming to shape. Our employee strength continues to grow with over 27,000 currently. We are expanding aggressively and we continue to add new domain-specific services to our portfolio to match to our customer demands. Quite a bit of investments has gone in into real estate across the country and also in terms of building our bench, adding new capabilities especially in the ITO segment. The investment we made in ITO is beginning to show results over the last few quarters and we continue to do so. We have recently launched our College Connect program to bridge the gap between curriculum and the need for industry ready talent. The ELLA, which is EDS Learning and Leadership Academy, continues to work tirelessly to train more and more of our potential employees. It has been a great investment and boon to our workforce. We will be expanding and consolidating throughout the year 2008. During the quarter, the group added 17 new clients and 37 new clients in the physical year itself. This quarter, we added US-based manufacturing company, a technology company in Europe, and a US-based retail company and application services, and a banking company in Asia Pacific in BPO services. The group had a cash reserve of 95 crores as on March 31, 2008, and the blended billing rates remained steady. With that, let me open up for more questions from the team

Moderator: Thank you very much Sir. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, kindly press *1. First question comes from Ms. Divya from JM Financial. Over to you ma'am.

Ms. Divya: Hi My question relates to the demand environment that you are seeing at present. We have seen a sharp down-take in onsite billing during the quarter. What are you seeing in terms of order book firstly from EDS and non-EDS clients also seem to have declined during the quarter, what are your clients telling you on that front?

Mphasis: In terms of the onsite billing itself, what we are actually seeing is a deferment of decisions in terms of procurement. We are not seeing cancellations. So, this has been the trend I think for the last two quarters. The work is not going away, but the work between projects is taking longer to fill and that is what is affecting our onsite utilization. In terms of order book, it remains strong. EDS continues to be 43% of our overall revenue and we don't see a slow down in that portion. In terms of our Mphasis core channel, we are seeing that stable and a lot of growth is also coming from there. This recent quarter is more one of transition. We are realigning currently our entire sales force to move more into industry vertical and making sure that we get the right leaders in place right across these verticals.

Ms. Divya: If we look at the service lines performance, one of the reasons that EDS and the Mphasis came together was to take advantage of the application services that Mphasis had. This quarter, we have seen a dip in those services while the EDS-led services in terms of infrastructure and BPO have done very well. Do you see a mismatch here in terms of the goals of the merger. How this is panning out in terms of growth within service lines.

Mphasis: Not at all. Let me address the applications question first. Application, you know, on a quarter-on-quarter basis dipped 0.2%. I think that we are quite okay with that in the sense that the order book remains strong. We are very aligned with EDS sales strategy as to how we can move applications much faster. Of course, the bigger deals take much longer. So, that is what we are seeing. ITO was a domain expertise, we picked up during the EDS Mphasis merger. ITO is growing and this comes to us by the value of our alignment and integration with the EDS sales force.

Ms. Divya: What is the current order book?

Mphasis: We don't give forward guidance. We have not given guidance, but we have said that our sold backlog is well over a billion dollars. It continues to grow, so that has been good.

Ms. Divya: One last question, any indication of the kind of headcount addition you are looking at in FY09?

Mphasis: We are looking probably to grow the headcount by about 7000 to 8000 this year.

Headcount, we are looking probably to grow the headcount closer to like about 7000 to 8000 this year.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Raunak from Valley Quest Research. Over to you sir.

Mr. Raunak: Hello, good morning. You said you will continue to add new domain-specific services to your portfolio. Sir, can you give some details about that?

Mphasis: If you look at where we are headed, we are beginning to differentiate ourselves now, and investing in domain expertise, building specific capabilities, especially in our BPO area. We are starting with financial services and creating domain expertise in investment banking & insurance, In health care, we are investing in a healthcare platform that will support our growth in BPO. In other verticals like manufacturing and telecom, we are building domain based skills, specifically to front our applications business.

Mr. Raunak: Will your projected headcount of 34,000 impact your margins?

Mphasis: No, that is not the plan. We have already streamlined our bench over the last quarter or so. We have made sure that the training programs that we have are working well and time to billing, is getting much shorter. So, we are not expecting to see these impacting our bottom line. If you look at the investments we made over the last couple of years, these are mainly in terms of real estate consolidation as the bulk of where our investments are going and in technology.

In the domestic India market we plan to grow our ITO business aggressively. If you look at last year's growth for ITO, we grew close to like about 56% year on year and in terms of BPO, it continues to grow at about, close to about 23% year on year. Among the domestic BPO, Mphasis is among the top five. We are making sure all our domestic growth engines grow much faster.

Mr. Raunak: Will there be any salary hike in FY09 and if yes, by how many percentage?

Mphasis: We have already considered the salary hikes. The salary hikes are closer in line with what the market hikes are. Approximately these are around 8% to 10%?

Mr. Raunak: Can you give me a geographical breakup of what percentage of revenues come from US, Europe, and APAC.

Mphasis: These are available in the MD&A tables, but I will mention this. It is about 65% which comes from US, Europe is 21% and Asia Pac is about 5%. India and Middle East is 9%.

Moderator: Next in line, we have Mr. Prateesh Krishnan from DSP Merrill Lynch.

Prateesh Krishnan: This is in terms of your gross margins in the applications business. It seems, you know, it has fallen by around 300 basis points last quarter. If you can just run through the reasons for the same and what is your view on gross margins going forward?

Mphasis: Applications business is as you know that is a churn business and, you know, the project life typically spans between about four to six months. There have been slight delays in the project start dates. We have not yet heard about the cancellations of the projects, so essentially the applications business suffered because of delays. There was not sufficient growth in that particular business and the onsite utilization dropped which made the margins suffer. Going forward, we hope that the markets are going to look up, which will improve the margins of that particular business.

Prateesh Krishnan: I think a couple of quarters back a couple of large deals, Vodafone, World Bank, may be if you can just give some update in terms of, you know, has the ramp started in these deals or when do you expect the ramp to start?

Mphasis: Our visibility to our future business looks fairly good, but 40 % of our Business is in the applications space, which is a churn, so there are ongoing projects that continue to end and new projects continue to start. We hope to have returned back to the growth in the next quarter, and we have good visibility to growth.

Prateesh Krishnan: Sure. Earlier you had talked about 8,000 to 10,000 additions, I and now you are talking about 7,000 to 8,000. Is there any change in the EDS strategy in terms of off shoring, or is it just for macro in terms of the lower headcount?

Mphasis: We don't see any slowdown in EDS' best shoring efforts. It is a critical initiative for both the companies. Initially when we looked at the numbers, we were looking at about 8,000 to 10,000 growth, but by looking at driving our internal efficiencies, we think we can do the same number at about 7,000 to 8,000. We will also effectively drive up utilization.

Now that we want to get into all the sales force, we are trying to look at it more from a vertical perspective, where we could easily cross-train people to get into domain-specific services. So, as you move across to higher value-added services, we don't have to grow the headcount at the same rate.

Moderator: Thank you very much sir. Next in line, we have Mr. Ankur Arora from ING Investment Management. Over to you sir.

Ankur Arora: I have a couple of financial questions. One is of course your margin which really fell quite significantly this quarter. You said the utilization rate has gone down because of which probably margin has taken a hit, but if you see the utilization rate, it is going up for almost all three quarters and even in this quarter, that is one, and secondly even the selling expenses have gone up roughly around 19%. What is your view on that?

Mphasis: Utilization actually for the quarter has gone up I think around 1.3% if you look at the blended utilization. But it is slightly lower than what we were internally forecasting.

Ankur Arora: Vis-à-vis the last quarter your utilization has gone up but your margin has come down by around 6% in total operating margin. So, I was just wondering if you can just throw some light on that.

Mphasis: It is correct, but the onsite utilization actually dropped which impact the margins more, so that is what that reason is. The offshore utilization improved, but the onsite utilization due to the project delays which dropped which impacted the margins. The other point which I wanted to make was the margins dropped, the operating margin level, but we did recover in the net margins. So, net margins improved by about 0.4% on the sequential quarter basis.

Ankur Arora: One other question on salary cycle, when is the salary hikes going to be effective from, what is the cycle of salary hikes?

Mphasis: It is mostly effective...it is across the year actually. In most of the businesses we have basically quarterly, every quarter there is an appraisal cycle, but this quarter obviously the number of people, the population which falls into this quarter's appraisal cycle is going to be higher compared to the other quarters.

Ankur Arora: One last question on the income tax side, why it is negative, am I missing something?

Mphasis: No, you are not missing something. It is actually, actually our net credit in the income tax line, essentially because of the deferred tax assets that we have recognized during this particular quarter. We are, as you know, we are expanding and there is a whole lot of capital expenditure which is being spent which has given some deferred tax asset recognition and also certain 43B items typically.

Ankur Arora: Okay, going forward, what kind of tax rate we can expect then?

Mphasis: It should be in the range of about, I think effective tax rate should be on a PBT percentage, it should be in the range of 8% to 10%.

Moderator: Thank you very much sir. Next in line, we have Mr. Hitesh Shah from Citigroup. Over to you sir.

Hitesh Shah: Just wanted to understand the outlook on the margin front, we had a significant decline primarily because of the apps business in this quarter, but from FY09 perspective, where do you see margins growing compared to 11.5% in FY08?

Mphasis: We don't give forward guidance on margins, so I think we will not be able to mention any outlook the on margins as of now, but it should come back to double digit, that is what we hope.

Hitesh Shah: Do you think that there would be more margin pressures or do you think that there are lot of levers that could be unleashed over the next 12 months, if you could just throw some light on that?

Mphasis: There are margin pressures, but at the same time we have our plans, we are working on our plans to counter those challenges and that is an ongoing effort, so we will continue to do so.

Moderator: Thank you very much sir. Next in line, we have Mr. Ashwin Mehta from Mangal KSR Securities. Over to you sir.

Ashwin Mehta: I wanted to understand in terms of our project replenishments, have we seen a pickup in terms of replenishments in this particular quarter or that might also be slightly back-ended as most of the industry has indicated?

Mphasis: In terms of replenishment, we are not seeing anybody doing less, but what we do anticipate is like rest of the industry, this will be also back-ended for us.

Ashwin Mehta: In terms of our next year, next year guidance on the headcount, typically what percentage of those would be freshers?

Mphasis: We are looking at closer to 30% to 40% as freshers.

Ashwin Mehta: In terms of our cost, costs which have gone up in terms of our rentals and on the software development charges, do we see that to be over as of now or we expect that to continue to increase in the next year as well?

Mphasis: I think most of it is done. I think what we will start seeing throughout the year is in terms of our real estate strategy, in terms of consolidating the number of sites we actually have.

Moderator: Thank you so much. Next in line, we have Ms. Mythili Balakrishnan from JP Morgan. Over to you ma'am.

Mythili Balakrishnan: I wanted to understand what was the growth in EDS during the quarter, EDS-led business?

Mphasis: It was just, see the total business, book of business grew by 4% and the ratio of EDS revenue grew just marginally from last quarter, so roughly, it will be in the 5% Q-over-Q.

Mythili Balakrishnan: Obviously visibility into the EDS-led business would be higher, so even in terms of replenishments, etc., you think that your EDS-led business will continue to remain higher than the company growth?

Mphasis: It is an annuity-based business. Most of the EDS business is not really project-based business. So, it has lot more stability than just the pure project-based business.

Mythili Balakrishnan: I was just trying to understand whether you continue to expect the EDS-led business to grow? You are also investing in growing your own sales channel?

Mphasis: I think we are planning for both, you know, we want to see growth both in the EDS sector, EDS channel and also in terms of our core Mphasis channel. The SG&A investments, particularly the sales investments are to grow the Mphasis core channel much faster than the EDS channel. We have got coverage with the EDS channel. For the last couple of years, our Sales investments have mainly gone into US. Over the last quarter, we have started making a lot more investments into Europe. This quarter, we have continued to start and finalise our investments into India and some parts of Asia Pacific.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Srivatsa from Spark Capital. Over to you sir.

Mr. Srivatsa: Given that we are looking at improving the overall utilization of the company, do you see utilization rates improving in the FY09 as a whole year than what it was at FY08?

Mphasis: That is one of the main levers we are looking at. What we have done over the last three months is to look at what are the operating levers and which are the ones that we need to press the pedal harder and which are good as it is and one area I think we are really looking to drive is the utilization itself.

Mr. Srivatsa: If I am correct, in the last quarter you told about training facility of 1000 odd. You said we are investing further in the training facility, what is the status at this point of time?

Mphasis: Our plan for the year is to train close to like about 4,000 to 5,000 new employees that we would think we would need into ELLA which is based in Mangalore. We are building out the facility. We are continuing to make investments in terms of employee growth and development, and ELLA is the forefront of it.

Mr. Srivatsa: Just a continuation on the point you made at consolidation of real estates across. Have we started investing more at SEZs and what traditionally has been more STPI-driven growth.

Mphasis: Yes. The primary thing for consolidation what we are looking at is like you know in some of the cities we have got as much as 8 to 9 different sites. We are going to make sure that we consolidate and get it down to probably a single location, many buildings, but in one location.

Mr. Srivatsa: I want your comments on the pricing pressure as it is, because there is pricing pressure across verticals as in you see a similar pricing pressure in applications, BPO, or ITO, or is there more pricing pressure in terms of internal business from EDS, given that EDS has not been going through a great time during the last one year?

Mphasis: Our pricing pressure is more coming from, the market itself. When you see the market growing at a slower rate than what it used and everybody is focusing the US market, so the rates do get competitive.

Moderator: Next in line, we have Mr. Ruchit Mehta from HSBC. Over to you sir.

Ruchit Mehta: Just to pick up back on the pricing environment front, have you seen instances where customers come back to you and ask for pricing discounts or volume discounts effectively reducing your effective pricing?

Mphasis: We haven't started seeing that as yet, but I think what we are doing more is to get back to our client. So, if you look at, you know, our client profile, most of them are multi accounts, accounts that we have been up for the longest. We are actually going back to our clients with rate increases and we are reasonably successfully in getting those in most of our accounts.

Ruchit Mehta: Would it be fair to say for you pricing is going to be stable in fiscal 09 and have possibly a small upward bias or we can see some pressure in pricing in fiscal 09?

Mphasis: I think we are seeing it more being flat because you know the newer, the newer logos and stuff that we got to bring in, we expect the pricing to be a lot more competitive.

Ruchit Mehta: In terms of what does that do to your margin environment because this quarter obviously was impacted by the ADM side of the business, but how do you see margins now panning out going into fiscal 09, I mean would they revert back to the 17-18 range that we saw in the previous three quarters?

Mphasis: We don't give forward guidance, but we are definitely looking at it to go back to probably to double digits.

Ruchit Mehta: You mentioned we are going to be doing a lot of consolidation on the real estate front. So, what sort of CAPEX are we planning for next year?

Mphasis: The total CAPEX should be in the region of 70 million dollars plus.

Moderator: Thank you very much sir. Next in line, we have Mr. Ramprasad from Sundaram BNP Paribas. Over to you sir.

Mr. Ramprasad: You were talking about improving utilization levels going forward, but would it be possible to share with us some thoughts on where could you go from the 70% levels over the next one to two years, so what kind of goalpost you have set for yourself sir?

Mphasis: Actually, it is always a balancing game in utilization. It is growth versus efficiency and we need to balance it out everytime. It is also a question of our moving goalpost, right, because when in a growth story, it typically happens that we shift the goalpost everytime and we evaluate what the status is and we move the goalpost, so that is what I think Jeya wanted to mean was that we are looking at utilization very seriously and we will be making the drive to improve the utilization percentages, specially on the onsite which has dropped tremendously in the last quarter and which has impacted our margins. So, onsite definitely is going to move up. Offshore is a question again of the growth and the efficiency, so we will balance it up constantly, but we should be able to see an improvement there.

Mr. Ramprasad: In terms of , the utilization levels again, you know over the last five to six quarters, the numbers have actually come down from 80% to about 69% now. So, I mean we could understand the last quarters decline, but this, you know, secular decline in utilization level, what could be the reasons that you attribute sir?

Mphasis: When we plan for growth, we need to build up your bench so that basically to quell the growth, that is anticipated growth in the future. That had been situation which on the sequential quarter, since about I think the July-August-September, we have slipped in utilization because of conscious decision to invest in bench and that is what we are, we have made the investments and we want to retain that investment, so going forward it should be an improvement from where we are. The other thing that is impacting is that, if you remember, about a year ago we did not have the freshers program. So, when you start a freshers program, today we have 1500 people in our basically pipeline at various stages of training and getting into knowledge transfer and getting into billable position, so that is also impacting it. So, when you start an initiative like that and until you get to a run rate, it has shown a significant decline, but like we talked about we continue to work on improving that.

Mr. Ramprasad: Is there forced attrition that is happening in the company sir?

Mphasis: No.

Mr. Ramprasad: Lastly on the payments from the clients, given the environment, do we see any kind of delay in payments from your clients?

Mphasis: It is not really. We don't see any major impacting delays, for example, our debtor days have slightly gone up from 40 to 43 over sequential quarters, but we will manage it tightly and bring it down. Actually, the DSO actually year-on-year basis, it has actually come down by about 8 days.

Mr. Ramprasad: If you look at the currency, what is the kind of position you are taking, what kind of deduction are you look at for the currency sir?

Mphasis: We will be initiating our cash flow hedging programs, etc., on a longer term basis, which I think there were questions last quarter also from some of the participants that when are we going to initiate the cash flow hedging program, we said that we are going to get a fix on that within a period of 90 days. We are getting a fix on that and we should be hedging soon. We do hedge, but on a short term, but we will start hedging on a longer term basis and the market looks favorable as of now. So, we will take a position when we enter the market and we will decide accordingly.

Moderator: Next in line, we have Mr. Sudhakar from Span Capital. Over to you sir.

Mr. Sudhakar: Your cash in the balance sheet seems to be almost half compared to last year from 190 crores to 90 odd crores in the current year and also your growth in cash flow from operations seems to be only 20% compared to profit growth of 40%, any concerns on that?

Mphasis: It is actually the cash balance has dropped because of the capital expansion plans that we have as Jeya had pointed out that the growth story continues to Mphasis and we will be investing in capital expansions and consolidation and that is where the cash has gone to and thereby you have seen a dip in the results.

Moderator: Thank you very much sir. Next in line, we have Mr. Ravi Bhatia from Aviva Life Insurance. Over to you sir.

Moderator: Thank you very much sir. Next in line, we have Mr. Jigarwalia from Parag. Over to you sir.

Mr. Jigarwalia: With the kind of employee addition we are seeing right now, targeting for the next year, and plus the improvement in utilization for the apps business onsite particularly, should we expect like the growth rates to moderate at 25% to 30% or we would be able to do the 35% to 40% this year as well?

Mphasis: The guidance we would give I guess to all of you'll is that the growth will continue, but again we do not give forward growth guidance in terms of absolute percentage. You have seen the trend over the last two years, there has been a great growth story, we don't see that slowing down.

Mr. Jigarwalia: Is the company absolutely debt averse or are you planning to fund more CAPEX in the other growth, would you be raising debt this year?

Mphasis: Yeah typically we have been able to fund our capital expansion plans from the internal generations. We will continue to do that and in case there are short-term aberrations in that, then we are not averse to go to the debt market.

Moderator: Thank you very much Sir. Next in line, we have Mr. Narender Nagpal from Primus Investment. Over to you sir.

Narender Nagpal: I have two questions. One is can you give me the number of freshers you had in FY08?

Mphasis: About 1300 to 1400 freshers. That was for the apps business. In BPO business, we hire, majority of it is freshers. So, if you look at apps business, it was 1300 to 1400.

Narender Nagpal: The second question is that since you are investing a significant amount in real estate, is it reasonable to assume that your rental cost will come down because at the moment in the case of Mphasis, the rental cost is 3% to 4% of sales, which is exceptionally high. So, is it fair to assume in the next one to two quarters, that will be pretty much trend down to 0?

Mphasis: No, it is not going to be because there will be new premises, so obviously there will be rentals. The utilization of the premises will improve, so there will be a marginal improvement in the basically leverage of that, so the expenses of rent compared to revenue. At the same time the rentals are what they are today,

they will be lower than what we would have rented in the old premises that we had because of the larger deals that we are doing but at the same time it will at the market rate

Moderator: Thank you very much sir. At this moment, there are no further questions from participants. I would like hand over the floor back to Mr. Ganesh Duvvuri for final remarks.

Ganesh Duvvuri: On behalf of IDFC-SSKI, I would like to thank the Mphasis management for the call and all the participants as well for dialing in. With that, I now hand over the call to Mr. Mphasis for closing remarks

Mphasis: So, once again, thank you all for being on the call, great questions, gave us some good hint for us to follow through and looking forward to a good quarter in this quarter itself and back to you all next quarter. Thank you, appreciate it.

Moderator: Ladies and gentleman, thank you, that concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.
